



## **H.R. 4351 – AMT Relief Act of 2007**

### **EXECUTIVE SUMMARY**

This legislation was introduced by Representative Charles Rangel (D-NY) on December 11, 2007. The bill was never considered by the Committee on Ways and Means. H.R. 4351 is expected to be considered on the floor under a closed rule on December 12, 2007.

The bill would extend for one year AMT relief for nonrefundable personal credits and increases the AMT exemption amount to \$66,250 for joint filers and \$44,350 for individuals, which is estimated to cost \$50.59 billion over 10 years. It includes an array of tax increases.

According to Ways and Means Ranking Republican Jim McCrery (R-LA), “the longer we wait to enact a patch, the more confusion and delayed tax returns we create for tens of millions of American families. And, without an AMT patch, 23 million taxpayers face an average tax increase of \$2,000.”

### **FLOOR SITUATION**

H.R. 4351 is being considered on the floor under a closed rule. The Rule:

- Provides one hour of general debate equally divided and controlled by the Chairman and Ranking Republican Member of the Ways and Means Committee.
- Waives all points of order against consideration of the bill except those arising under clauses 9 (earmarks) and 10 (PAYGO) of Rule XXI.
- Provides that the bill shall be considered as read.
- Waives all points of order against provisions of the bill. This waiver does not affect the point of order available under clause 9 of rule XXI (regarding earmark disclosure).
- Provides one motion to recommit with or without instructions.
- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

This legislation was introduced by Representative Charles Rangel (D-NY) on December 11, 2007. The bill was never considered by the House Committee on Ways and Means.

H.R. 4351 is expected to be considered on the floor of the House of Representatives on December 12, 2007.

## **SUMMARY**

Extension of AMT Relief for 2007: H.R. 3996 will also extend the AMT relief for nonrefundable personal credits for one year through taxable year 2007. The bill raises the income threshold above which taxpayers may be subject to the Alternative Minimum Tax (AMT). The amount of income a taxpayer can make and still be exempt from the AMT is increased from \$42,500 to \$44,350 for individuals and is increased from \$62,550 to \$66,250 for couples that file a joint tax return. *This proposal is estimated to cost \$50.59 billion over 10 years.*

Lowering the Threshold to Qualify for the Child Tax Credit: The bill reduces the income threshold for how much income an individual must earn before they can qualify for the refundable child tax credit from \$10,000 to \$8,500 for taxable year 2008. *This proposal is estimated to cost \$2.87 billion over 10 years.*

Increase of AMT Refundable Credit Amount: Under present law, taxpayers with long-term unused AMT credit may claim an AMT refundable credit in the amount of the greater of (1) the lesser of \$5,000 or the amount of unused AMT credits, and (2) 20 percent of the unused AMT credits. The credit is phased-out for taxpayer's with adjusted gross income in excess of \$156,400 in 2007 (\$234,600 for joint filers). The provision would repeal the phase-out and allow taxpayers to claim an unused AMT credit in the amount of the greater of (1) 50 percent of the amount of unused AMT credits, and (2) the amount, if any, of the AMT refundable credit claimed by the taxpayer for the taxpayer's preceding taxable year. *This proposal is estimated to cost \$2.26 billion over 10 years.*

Requires Taxes to be Paid on a Current Basis on Deferred Compensation: The bill will require individuals that receive deferred compensation from a non-taxed party to pay tax on that compensation on a current basis, as opposed to current law that permits the taxes to be deferred until the compensation is received. *This proposal is estimated to raise \$23.85 billion over 10 years.*

Further Delays Implementation of a Tax Cut for Certain Individuals with Foreign Sources of Income (worldwide allocation of interest): In 2004, Congress authorized a change in the way costs stemming from interest between United States sources and foreign sources of income are treated for the purposes of determining a taxpayer's foreign tax credit eligibility. This implementation of this tax benefit was delayed until tax year 2008, and H.R. 3996 will further delay its implementation until after 2017. *This proposal is estimated to raise \$26.21 billion over 10 years.*

Economic Substance Doctrine The bill would modify the economic substance doctrine such that it would be satisfied only if (1) the transaction changes in a meaningful way (apart from Federal income tax consequences) the taxpayer's economic position, and (2) the taxpayer has a substantial non-Federal tax purpose for entering into such transaction. The provision also imposes a 20% penalty on understatements attributable to a transaction lacking economic substance (penalty increased to 40% in the case of transactions in which the relevant facts affecting the tax treatment of the transaction are not adequately disclosed). *This proposal is estimated to raise \$4.08 billion over 10 years.*

Penalty for Failure to File a Tax Return: The bill increases the minimum penalty for willfully failing to file a tax return from \$100 to \$150. *The provision raises \$118 million over the 10 year budget window.*

Penalty for S corporations and partnerships filing late returns: The bill would impose a \$100 penalty per S Corporation shareholder for each month the S Corporation fails to file a tax return. The provision also increases the failure-to-file penalty for partnerships by \$50 per partner (for a total of \$100 per month). *Together, the two provisions are estimated to raise \$1.62 billion over the ten year budget window.*

## **BACKGROUND**

The Alternative Minimum Tax (AMT) was created in 1969 to ensure that higher-income individuals and families did not utilize the tax code to unfairly avoid tax liability. It serves as a companion tax to the regular income tax. The AMT rates and exemptions, however, have never been properly indexed for inflation, resulting in more and more middle-income earners becoming subject to the AMT.

According to the Congressional Research Service, the AMT impacted fewer than 20,000 taxpayers when first implemented. In 2006 it applied to roughly 4.2 million taxpayers and is projected to affect over 23 million in 2007 unless it is addressed.

The Tax Reform Act of 1986 substantially changed the AMT by increasing the tax rate to 21%, changing the basic exemption amount, broadening the tax base, and revamping the AMT credit. It also introduced a phase-out of the AMT exemption amount for taxpayers whose AMT taxable income exceeded certain limits.

Since 1998, the AMT has been mitigated through temporary provisions allowing certain personal tax credits to offset AMT liability and temporary increases in the basic exemption for the AMT. Congress last enacted an AMT "patch" as part of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-122), which extended the fix through 2006.

In November 2007, the House passed a similar AMT bill with tax increases, H.R. 3996, by a vote of 216 to 193 (with no Republicans voting yes). The Senate rejected the tax increases included by the House; instead passing a clean AMT patch by a vote of 88 to 6 on December 6, 2007. Without an AMT patch, it is anticipated that taxpayers will face an

average tax increase of \$2,000. The Internal Revenue Service has estimated that delayed passage of an AMT patch would dramatically slow nearly 32 million tax refunds.

#### **ADDITIONAL VIEWS**

According to Ways and Means Ranking Republican Jim McCrery (R-LA), “the longer we wait to enact a patch, the more confusion and delayed tax returns we create for tens of millions of American families. And, without an AMT patch, 23 million taxpayers face an average tax increase of \$2,000.”

#### **COST**

There was no Congressional Budget Office cost estimate available at the time of this publication.

#### **MOTION TO RECOMMIT**

Please find the Republican Motion to Recommit [here](#).

#### **STAFF CONTACT**

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